

FY 2009 Bonding and Infrastructure Appropriation Adjustments Bill Senate Study Bill 1274

Proposed Action:

**Senate Appropriations
Committee**

March 4, 2009

Executive Summary Only

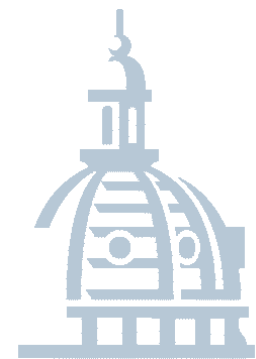
An Act relating to the issuance of bonds including the issuance of annual appropriation bonds, creating an annual appropriation bond debt service fund and an appropriation bonds capitals fund, making and revising appropriations, and including effective date provisions.

NOTES ON BILLS AND AMENDMENTS (NOBA)

Available on line at <http://www3.legis.state.ia.us/noba/index.jsp>

Fiscal Services Division

LSA Contact: Marcia Tannian (1-7942)



EXECUTIVE SUMMARY NOTES ON BILLS AND AMENDMENTS

SENATE STUDY BILL 1274 FY 2009 BONDING AND INFRASTRUCTURE APPROPRIATION ADJUSTMENTS BILL

FUNDING SUMMARY

- Creates the Appropriation Bonds Capitals Fund (ABC Fund) to receive net bond proceeds of \$175.0 million from the issuance of appropriation bonds.
- Restores funding for FY 2009 projects that have been delayed because the planned securitization of the remaining tobacco payments has not occurred, by moving the projects to the ABC Fund from the FY 2009 Tax-Exempt Restricted Capital Fund (RC3).
- Appropriates \$174.2 million from the ABC Fund, including \$150.4 million that was previously appropriated from the RC3 for FY 2009.
- Deappropriates \$162.8 million from the RC3. This amount reflects \$7.4 million in decreases for certain appropriations shifted to the ABC Fund and deappropriations of \$4.9 million for the Honey Creek Destination Park and \$100,000 for a veterans memorial. Funding for both of these projects was provided through other sources.
- Regarding the RC3 appropriations, House File 414 (FY 2009 Appropriation Adjustments Bill) includes the \$4.9 million deappropriation from the RC3, as well as the \$20.0 million deappropriation from the RC3 for the new State office building; therefore, the entire \$182.8 million from RC3 appropriations has been addressed.

BONDING SUMMARY

- Authorizes the Treasurer of State to issue appropriation bonds as an alternative to the planned tobacco securitization that has not occurred due to market conditions. The market for tobacco securitization reflected interest rates above 9.0%, while in comparison, the market for appropriation bonds shows interest rates at approximately 4.7%. Appropriation bonds are a special type of limited obligation bond that do not require the State to pledge full faith and credit through taxes and resources as would be required for a General Obligation bond. These bonds do not constitute a legal liability against the State. Appropriation bonds do not require a designated revenue stream as does a typical revenue bond, thus the State may opt for any source of funds for repayment. Appropriation bonds are expressly conditioned on the State making an affirmative act to appropriate funds for repayment each fiscal year.
- Debt service on the proposed bonds is estimated to be \$13.9 million per year if a debt service reserve fund is needed and \$13.4 million without a reserve fund. In contrast to revenue bonds, appropriation bonds are marketable without a reserve fund. For a revenue bond, the source of repayment is a designated revenue stream and the debt service reserve fund is needed to protect bondholders in case the revenue stream is inadequate. For appropriation bonds, the source of funds for repayment is flexible and bondholders may not require a reserve fund. Bonds will be issued and interest will be capitalized. The first debt service payment will be in FY 2011 and bonds will have a duration of approximately 20 years. The last bond payment is expected to be in FY 2033. Bonds will be tax-exempt and must meet certain requirements of the Internal Revenue Code.

**EXECUTIVE SUMMARY
NOTES ON BILLS AND AMENDMENTS**

**SENATE STUDY BILL 1274
FY 2009 BONDING AND INFRASTRUCTURE
APPROPRIATION ADJUSTMENTS BILL**

DIVISION I

**AUTHORIZATION AND
SPECIFICATIONS FOR BONDS**

NOT DEBT OF THE STATE

SUBJECT TO NONAPPROPRIATION

**BUDGETING AND APPROPRIATIONS
FOR PAYMENTS**

**INTENT OF GENERAL ASSEMBLY –
NOT A LEGAL OBLIGATION**

**NOT SUBJECT TO ACROSS-THE-
BOARD REDUCTIONS**

ANNUAL APPROPRIATION BONDS

- Authorizes the Treasurer of State to issue, sell, and refund annual appropriation bonds. Specifies that appropriation bonds and any interest earned on the bonds will be tax-exempt.
- Sets the maximum aggregate net proceeds amount at \$175.0 million, excluding any refunding of outstanding annual appropriation bonds. Normally, tax-exempt bonds allow for one refunding.
- Specifies the annual appropriation bonds must be used for capital projects that meet the definition of vertical infrastructure as defined in Section 8.57(6)(c), Code of Iowa, to the extent practicable.
- Specifies the annual debt service on appropriation bonds is payable solely from the moneys appropriated for a certain fiscal year to the debt service fund or reserve fund created for that purpose. The bonds are not secured by the full faith and credit or the taxing powers of the State. Annual appropriation bonds do not obligate the State to make payments beyond any fiscal year for which sufficient funds have been appropriated.
- Specifies that if the funds are not appropriated for a fiscal year, the State will not be obligated to make a payment from any source of any amounts beyond the amount of the previous appropriation. The State will not be held liable for the debt or any repercussions from the lack of an appropriation for payment of the debt service. Annual appropriation bonds are subject to nonappropriation and are expressly conditioned on the State appropriating funds for repayment. Any annual appropriation bonds will include a statement for the bondholders of the limitations of the State's liability.
- Requires the Treasurer of State to report annually by January 1 to the Governor and the General Assembly the amount needed to make the payments for the debt service.
- Requires the debt service appropriation to be made to the Treasurer of State.
- Requires amounts appropriated to restore the reserve fund to be paid to the Treasurer of State.
- Specifies the intent of the General Assembly to make timely appropriations to pay the debt service. Specifies that the intent language does not create and is not to be construed as creating a general, legal, or enforceable obligation.
- Specifies that amounts appropriated for purposes of annual appropriation bonds payments are not subject to across-the-board reductions.

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NOTES ON BILLS AND AMENDMENTS**

**SENATE STUDY BILL 1274
FY 2009 BONDING AND INFRASTRUCTURE
APPROPRIATION ADJUSTMENTS BILL**

**DEBT SERVICE FUND AND
RESERVE FUNDS**

- Creates an Annual Appropriation Bonds Debt Service Fund for purposes of receiving the appropriations that are intended to pay the debt service on any outstanding appropriation bonds.
- Authorizes the Treasurer of State to create one or more reserve funds for purposes of issuing annual appropriation bonds.

**APPROPRIATION BONDS CAPITALS
(ABC) FUND**

- Creates the ABC Fund to receive net proceeds from appropriation bonds issued and specifies that the ABC Fund will be used for infrastructure projects. Interest earned on the Fund will be credited to the Fund.

REPORT REQUIREMENT

- Requires an annual infrastructure report for appropriations received from the ABC Fund by January 15. This is consistent with State reporting requirements for appropriations from any of the infrastructure and technology-related funds.

EFFECTIVE DATE

- Specifies that Division I takes effect on enactment.

DIVISION II

REGENTS BONDING

PROJECT DEFINITION EXPANDED

- Permits the Board of Regents to use revenue bond proceeds for construction of replacement facilities and flood recovery and flood mitigation expenses resulting from a disaster in an area that is within a proclaimed disaster emergency by the Governor.

EFFECTIVE DATE

- Specifies that Division II takes effect on enactment.

DIVISION III

CHANGES TO FY 2009 RC3 APPROPRIATIONS AND SHIFT TO ABC FUND

**DEPARTMENT OF ADMINISTRATIVE
SERVICES**

- Generally, these changes represent funding shifts from the FY 2009 RC3 appropriations to the ABC Fund.
- \$1.0 million for renovations and repairs to the utility tunnel system in the Capitol Complex. This is a decrease of \$3.8 million compared to the RC3 appropriation. The Department of Administrative Services (DAS) advises that the \$1.0 million will be used for necessary safety repairs.
- \$6.9 million for continued restoration of the Capitol Building.
- \$850,000 for upgrades to the electrical distribution system serving the Capitol Complex. This is a decrease of \$3.6 million compared to the RC3 appropriation. The DAS advises that the funding level will suffice to complete the core project for the electrical distribution system.
- \$1.5 million for heating, ventilating, and air conditioning improvements at the Hoover State Office Building.
- \$623,000 for costs associated with improvements to the Central Energy Plant.
- \$165,000 for building security and firewall protection at the Hoover State Office Building.

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**SENATE STUDY BILL 1274
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**DEPARTMENT OF ADMINISTRATIVE
SERVICES (CONTINUED)**

- \$15.0 million for major repairs and major maintenance at State facilities.
- \$4.0 million for the purchase of the Mercy Capitol Hospital. This is an increase of \$500,000 compared to the RC3 appropriation. The DAS was expected to use some of the FY 2009 Rebuild Iowa Infrastructure Fund (RIIF) appropriation for property acquisition, but those funds were transferred to the Iowa Finance Authority for the Jumpstart Housing Assistance Program. The additional funds will allow the DAS to complete the purchase of the Hospital in December 2009 for a total of \$4.5 million.
- \$829,000 for improvements to the Civil Commitment Unit for Sexual Offenders at Cherokee.
- \$770,000 for restoration and renovation, including major repairs and maintenance at Terrace Hill.

**DEPARTMENT FOR THE BLIND
DEPARTMENT OF CORRECTIONS**

- \$870,000 for renovation of dormitory buildings.
- \$5.3 million for the expansion of the community-based correctional facility at Sioux City.
- \$4.1 million for the expansion of the community-based correctional facility at Ottumwa.
- \$6.0 million for the expansion of the community-based correctional facility at Waterloo.
- \$2.1 million for the expansion of the community-based correctional facility at Davenport. This appropriation is new and was not part of the FY 2009 RC3 appropriations. This is in addition to \$10.5 million in funding that the Davenport facility received for FY 2005 through 2007.
- \$18.1 million for the expansion of the community-based correctional facility at Des Moines, including land acquisition for the facility. This appropriation is new and was not part of the FY 2009 RC3 appropriations.
- \$47.5 million for expansion of the Iowa Correctional Institution for Women at Mitchellville.
- \$12.5 million for remodeling of the kitchens in the correctional facilities at Mount Pleasant and Rockwell City.

DEPARTMENT OF EDUCATION

**DEPARTMENT OF NATURAL
RESOURCES**

- \$2.0 million for major renovation and repair, including health, life, and fire safety needs, and for compliance with the federal Americans With Disabilities Act, for community college buildings.
- \$750,000 for infrastructure improvements at Volga River Recreation Area.
- \$500,000 for improvements at Levi Carter Lake.
- Deappropriates \$4.9 million for construction costs associated with opening of the Honey Creek Premier Destination Park.
- \$8.6 million for lake restoration and dredging projects.

BOARD OF REGENTS

- \$2.0 million for major renovations, major repairs, and other needs related to Iowa Public Radio.

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STATE FAIR AUTHORITY

DEPARTMENT OF
TRANSPORTATION

DEPARTMENT OF VETERANS
AFFAIRS

REVERSION

EFFECTIVE DATE

- \$8.0 million for construction of an agricultural exhibition center and other infrastructure improvements at the Iowa State Fairgrounds. This is an increase of \$3.0 million compared to the RC3 appropriation. This will fully fund the FY 2010 request and is the last of several years of funding totaling \$11.0 million.
- \$2.2 million for the Public Transit Infrastructure Grant Fund to assist capital projects at the 35 public transit agencies throughout the State.
- \$1.5 million for infrastructure improvements at the State's commercial service airports.
- \$20.6 million for matching funds for the construction and other improvements associated with the Iowa Veterans Home Master Plan.
- Deappropriates \$100,000 for a memorial plaza honoring veterans from the Dubuque area. This project was funded by a transfer from the Veterans County Grant Program.
- Changes the reversion date for appropriations from the end of FY 2012 to the end of FY 2013.
- Specifies that Division III takes effect on enactment.

Appropriation Bonds Capitals (ABC) Fund

	Proposed Legislative Action FY 2009
Resources	
Beginning Balance	\$ 0
Bond Proceeds	175,000,000
Total Available Resources	<u>\$ 175,000,000</u>
Appropriations	
Department of Administrative Services	
Major Maintenance	\$ 15,000,000
Capitol Complex Utility Tunnel	1,000,000
Capitol Complex Interior/Exterior	6,900,000
Capitol Complex Electrical Distribution Upgrade	850,000
Hoover Building HVAC Improvements	1,500,000
DHS - CCUSO Renovation	829,000
Capitol Complex Energy Plant Additions and Improvements	623,000
Terrace Hill Restoration	769,543
Hoover Building Security Improvements/Fire Wall Upgrade	165,000
Mercy Capitol Hospital Purchase	3,950,000
Department of the Blind	
Dorm Remodel	869,748
Department of Corrections	
First CBC - Waterloo Residential Expansion	6,000,000
Third CBC - Sioux City Residential Expansion	5,300,000
Seventh CBC - Davenport Residential Expansion	2,100,000
Eighth CBC - Ottumwa Residential Expansion	4,100,000
Iowa Correctional Institution for Women at Mitchellville Expansion	47,500,000
Fifth CBC - Des Moines Residential Expansion	18,100,000
Mt. Pleasant/Rockwell City Kitchen Remodeling	12,500,000
Department of Education	
Community College Infrastructure	2,000,000
Department of Natural Resources	
Volga River Rec. Area Infrastructure Improvements	750,000
Carter Lake Improvements	500,000
Lake Restoration and Dredging Projects	8,600,000
Regents	
Iowa Public Radio Infrastructure	2,000,000
State Fair Authority	
Ag Exhibition Center	8,000,000
Department of Transportation	
Public Transit Infrastructure	2,200,000
Commercial Airport Vertical Infrastructure	1,500,000
Department of Veterans Affairs	
Iowa Veterans Home Master Plan	20,555,329
Total Expenditures	<u>\$ 174,161,620</u>
Ending Balance	<u>\$ 838,380</u>